

VZCZCXRO4176  
RR RUEHAO RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS  
RUEHTM  
DE RUEHCV #1509/01 3351531  
ZNY CCCCC ZZH  
R 011531Z DEC 09  
FM AMEMBASSY CARACAS  
TO RUEHC/SECSTATE WASHDC 0073  
INFO WESTERN HEMISPHERIC AFFAIRS DIPL POSTS  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC  
RHMFISS/HQ USSOUTHCOM MIAMI FL  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001509

SIPDIS  
ENERGY FOR CDAY AND ALOCKWOOD  
HQ SOUTHCOM ALSO FOR POLAD  
TREASURY FOR MKACZMAREK  
NSC FOR DRESTREPO AND LROSSELLO  
USDOC FOR 4332 MAC/ITA/WH/JLAO  
AMEMBASSY BRIDGETOWN PASS TO AMEMBASSY GRENADA  
AMEMBASSY OTTAWA PASS TO AMCONSUL QUEBEC  
AMEMBASSY BRASILIA PASS TO AMCONSUL RECIFE

E.O. 12958: DECL: 2019/12/01  
TAGS: [ECON](#) [EFIN](#) [VE](#) [PGOV](#)  
SUBJECT: VENEZUELAN GOVERNMENT SHUTS 4 BANKS AMID RUMORS OF CHAVISTA  
INFIGHTING

REF: CARACAS 1491; CARACAS 918

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

¶1. (C) Summary: The Venezuelan government (GBRV) announced on November 30 it will liquidate two of the four banks it took control of November 20 and temporarily close the other two as it tries to "rehabilitate" them. The intervening period of November 20-30, during which transactions proceeded normally, may have allowed the GBRV to extract the money it had deposited or loaned to the banks. A contact with close ties to the financial sector alleged the GBRV takeover of these banks resulted from a decision by President Chavez after a period of infighting between the more ideological left and opportunistic members of Chavez's military clique who had profited from their relationship with the banks' owner. In what appears to be both a means of avoiding responsibility and a warning to other bankers close to the GBRV, Chavez threatened to nationalize the banking sector if bankers violated Venezuelan laws. End summary.

From "Open Doors" to "Closed Doors" and Liquidation

¶2. (U) Minister of Economy and Finance Ali Rodriguez announced November 30 that the GBRV had decided to liquidate Banpro and Banco Canarias, two of the four banks it had taken control of on November 20 (ref A). Rodriguez said the intervention at the other two banks, Confederado and Bolivar, would be changed from "open doors" to "closed doors," i.e. the banks will be closed and depositors will not be able to access their money until further notice. Rodriguez said the goal of the intervention process for Confederado and Bolivar would be to "rehabilitate" the banks and attributed the closed-door intervention to damage that had "severely compromised" the institutions' solvency.

But First Saving Government Assets?

¶3. (C) Banpro and Banco Canarias will be liquidated by the Fund for Guarantee of Deposits and Banking Protection (FOGADE). If the

money raised by selling their assets does not cover their liabilities, FOGADE is obligated by law to prioritize liabilities to workers, general depositors, and retired persons (the latter two up to certain specified amounts) above liabilities to the National Treasury (i.e., GBRV deposits). FOGADE also provides a separate guarantee to individual depositors for up to 10,000 bolivars (Bs; at the official exchange rate, Bs 10,000 = USD 4,651). Orlando Ochoa (strictly protect throughout), an economist with close ties to the financial sector, claimed the GBRV had made the initial intervention "open doors" to give the GBRV time to withdraw its deposits and wind down loans from state-owned banks (e.g., in the overnight market) to the four banks. (Note: Per statistics reported by the Superintendency of Banks [SUDEBAN], the four banks had a total of Bs 4 billion in GBRV deposits as of September 30, 2009. Ochoa claimed state-owned banks [as distinct from the GBRV] had lent or deposited Bs 14 billion in the four banks. A December 1 article in respected daily El Universal claimed Banfoandes, one of a number of state-owned banks, had Bs 750 million placed in the four banks as of June 30, 2009, and an additional Bs 290 billion placed with U21, a brokerage owned by Banco Canarias and reportedly insolvent. End note.)

Behind the Intervention: Chavista Infighting Between the Ideological Left and the Military Clique?

CARACAS 00001509 002 OF 003

14. (C) Ochoa also offered what he understood to be the answer to the question of why the GBRV chose to act when it did against Ricardo Fernandez, a businessman with close ties to the GBRV who had recently purchased (or was in the process of purchasing) the four banks. According to Ochoa, mounting evidence and public discussion of problems at these banks, including allegations that Fernandez had used deposits in the banks themselves to pay for the purchases, was pushing Rodriguez and SUDEBAN Superintendent Edgar Hernandez to act. Ochoa claimed Fernandez used his ties with the opportunistic military clique within the GBRV, which includes Minister of Public Works and Housing Diosdado Cabello and National Treasury Director Alejandro Andrade, to try to push Hernandez out and name a more pliable Superintendent in his place. (Note: See ref B for a description of this opportunistic military clique and its tensions with Chavismo's more ideological left, including Rodriguez. End note.) Ochoa attributed reports in the Venezuelan press prior to November 20 that Hernandez was going to be replaced (which has not happened to date) to Fernandez's efforts.

15. (C) At this point, according to Ochoa, Rodriguez and Hernandez met with President Chavez to seek his support to move against Fernandez. Ochoa alleges that in addition to evidence on the myriad of problems at the banks (including use of bank funds to leverage the purchase of other banks and loans to other companies owned by Fernandez), Rodriguez and Hernandez presented Chavez with recorded conversations in which Fernandez spoke insultingly of Chavez and which showed that Fernandez had financed opposition candidates (including a dissident candidate in President Chavez's home state of Barinas). This information, according to Ochoa, was sufficient for President Chavez to back a move against Fernandez and to issue a warning on November 29 to other bankers by threatening to nationalize the sector if bankers violate Venezuela's laws. (Note: Fernandez was detained shortly after the November 20 announcement and remains in detention according to press reports. Ochoa claimed that Pedro Torres, another businessman with close ties to the military clique who had recently bought several small banks, has fled Venezuela. End note.)

Comment

16. (C) We view President Chavez's threat to nationalize the banking sector if bankers violate Venezuelan laws as a warning to

certain other bankers such as Torres rather than an indication he is thinking of nationalizing the sector, a move which of course would subject the entire sector to the problems in which these four banks, and likely a number of others, are enmeshed. His threat is also a tactic to avoid responsibility for problems in the sector by suggesting instead that the blame lies entirely with unscrupulous bankers.

17. (C) By changing the intervention from "open doors" to "closed doors" or liquidation, the GBRV has injected another element of uncertainty into the financial sector. It may accelerate what many observers already expected would be a "flight to quality" in the wake of the initial November 20 announcement, as depositors in the four banks sought to move their assets to larger and more reputable banks. While depositors in these banks can no longer move their money, depositors in other similar banks may choose to do so in anticipation of possible GBRV intervention, a point made by brokerage executive Miguel Octavio (strictly protect) on his Devil's Excrement blog. Indeed, Ochoa claimed that "mini-runs" were already beginning on the banks owned by Torres.

18. (C) As we said in ref A, it will be difficult to arrive at a  
CARACAS 00001509 003 OF 003

definitive understanding of why the GBRV acted when it did against these four banks. Ochoa's central thesis, namely that the intervention came about largely because Chavez authorized the taking down of a business partner of the military clique in the face of evidence brought by the more ideological leftist faction in his government, is plausible. If true, it will be interesting to see how the infighting plays out. Rodriguez and his allies may bring down other business people linked to the regime who are associated with this or other scandals in the financial sector, especially if there is also evidence they are hedging their bets politically (i.e. by financing opponents of Chavez). But we are almost certain Chavez will not - and perhaps could not - give the green light to pursue the most powerful members of the military clique and their associates, allegedly including Cabello, Andrade, Jesse Chacon (Minister of Science, Technology, and Intermediate Industries), and Jose Vicente Rangel (former Vice President). Most observers speculate that Chavez must know of their corrupt activities (if not the extent) and chooses to - or has no choice but to - turn a blind eye as long as they remain politically loyal. Chavez would also almost certainly seek to avoid a prolonged scandal that exposes corruption and infighting in his inner circle as he and his party gear up for National Assembly elections currently scheduled for September 2010. End comment.  
DUDDY